



# Model Biomass Agreements

Presentation to Biomass Market  
Development Initiative Meeting  
October 29, 2010



# Model Biomass Agreements Created to Aid Growth of Wisconsin Biomass Market

- Project commissioned by OEI
- Wisconsin Biomass Market is in its infancy.
- Goal is to lower one barrier to entry into this market by providing agreements that offer a starting point for contract negotiations, thereby reducing transaction costs.



# Agreement Development Process

- Steps in Creation of Agreements:
  - Meetings with UW Faculty with biomass and commodities expertise
  - Input from Biomass grower cooperatives and Biomass fuel procurement representatives
  - Drew on Farmer input from previous biomass procurement projects.
  - Research into Biomass contracting in United States, Europe and Australia
- Drafts reviewed by input providers and OEI.



# Two Agreements:

## Two Different Types of Relationships

- Biomass Production Agreement (For sale of raw or minimally processed biomass by producer to aggregator)
  - **Producers** include farmers, loggers, etc.
  - **Aggregators** include cooperatives, sawmills aggregation companies, etc.
- Biomass Procurement Agreement (For Sale of processed biomass by Aggregator to End User)
  - **End Users** include power plants, cellulosic ethanol plants and other industrial users.



# Key Issues for Producers

- Opportunity Cost of Producing Biomass vs. Current Land Use
- Crop Establishment Issues
  - Switchgrass takes time to mature to full harvest stage
- Contract Term – Does it justify the Producer's investment?
  - E.g. Switchgrass is a multi-year commitment
  - Compare Forest Products Industry – Very short agreements are current norm.
- Sustainable Harvesting Practices
- Cost of Key Inputs (e.g. Increases in Diesel Fuel, etc.)
- Risk Allocation (Who takes risk of Adversity)
  - Does Producer bear full risk or is there a “Floor Price” to mitigate bad harvest year risk, etc.



# Key Issues for Aggregators

- Quantity of Biomass Feedstock Supply
  - Over/Under delivery by producers
  - Supply variability over course of calendar year
- Quality of Biomass Feedstock Supply
  - Customer Specifications
  - Water Content & Contamination
- Maintaining Margin between Cost of Feedstock Purchases and Sale Price for Processed Biomass
- Delivery Location/Transportation
- Storage
- Non-Conforming Deliveries
  - Lower price for out of spec feedstock
  - Right to reject delivery
  - Right to terminate.



# Key Issues for End Users

- Contract Directly with Producers or use Aggregator as a Buffer?
  - Contracting with Producers offers greater control, but adds complexity.
- Biomass Price Certainty & Margin
  - Index to other fuels (e.g., Coal, Natural Gas).
  - Contract Length
- Reliability of Supply (Multiple Sources?)
- Content (BTU, Sugars, Corrosive Minerals)
- Testing & Standards
- Emissions
- Storage
- Ownership and Allocation of Environmental Attributes



# Approach of Model Agreements

- Direct the parties' attention and negotiations to the critical business issues.
- Push the boilerplate to the back of the agreement
- Use footnotes to flesh out critical issues.
- Create “term” agreements, not “spot” contracts.
- Avoid “One Size Fits All” approach.



# Structure of Agreements

- Special Conditions - Critical Issue Provisions
- Substantive Exhibits
  - Exhibit A: Specifications
  - Exhibit B: Compensation
- Boilerplate Exhibits
  - Exhibit C: Definitions
  - Exhibit D: General Conditions



# Questions?

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